

Financing Model of Coconut Sugar Micro Small and Medium Enterprises (MSMEs) in Indonesia

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Abstract: Indonesia is the largest coconut sugar producer in the world but the welfare of coconut sugar MSMEs entrepreneurs are relatively low. The low of their welfare because it was confronted with various problems, one of the most critical problem is financing. The objectives is to formulate a model of financing for cocconut sugar MSMEs entrepreneurs in Indonesia. Reseachr was placed in Banyumas, Central-Java. The data analysis used qualitative analysis, meanwhile we used questionnaires, in-depth interviews and Focuss Group Discussion (FGD). Based on the analysis, formulation obtained financing model namely the Indonesia Coconut Sugar Bank (ICSB).

Key words: Coconut sugar, Indonesia coconut sugar bank, Micro Small and Medium Enterprises (MSMEs), interviews, focuss group discussion

INTRODUCTION

Background: Indonesia is largest coconut sugar producer among others in the world with a production capacity amount 120.000 ton year⁻¹. Although, Indonesia as the largest producer but the welfare coconut sugar MSMEs entrepreneur is relatively low. This problem caused by its entrepreneur have confronted with some various problems. One of the critical problems is business financing (Suroso *et al.*, 2012).

Supomo reveals that livelihood of coconut sugar MSMEs entrepreneur is miserable. It is difficult to escape from broker. The role of relation between MSMEs entrepreneur and collector which conducted by kinship sytem at previous but it is changing become business oriented at present. In turn, generally craftman does not have any opportunity for collecting capital or saving. Moreover, none organization who handle and protect its MSMEs entrepreneur from accident and fight for welfare.

Meanwhile Sukiman, stated that one of coconut sugar MSMEs entrepreneur problems is lack of capital for maintaining coconut tree which caused by inadequate income from coconut sugar sales. Marketing system and unclear distribution, namely monopoly system. Monopoly system constitutes price setting which is determined by one party (collector coconut sugar only) so, hence it must be profitless for craftman.

Based on the explanation of the problem above which are financing problem and difficulties of coconut sugar MSMEs entrepreneur to escape from broker, they were

really need to solved. Solution to settle its problems is formulating an appropriate financing model for coconut sugar MSMEs in Indonesia. Rely on the research problem, the formulation of research question is how to formulate an appropriate financing model for coconut sugar MSMEs in Indonesia?

Literature

Coconut sugar Micro Small Medium Enterprises (MSMEs) in Indonesia: In general, coconut sugar MSMEs in Indonesia has spesific characteristis as follows: It constitutes individual company where all of member family still involve in management and maintenance, amount of labour is approximately 2 until 5 persons, quality of product has standard yet with the production volume reached about 6 kg day⁻¹, it still used traditional technology, it does not have direct acces to market in turn it become long distribution and commonly craftman use collector, as marketing distribution, confronted with unstable price, price setting is determined by collector.

Coconut sugar MSMEs in Indonesia is very important to develop for several reasons are: Coconut sugar has a huge potential in domestik market and international market (export), Indonesia has coconut sugar fields reach until 3.707 million ha that strongly sustain the development of coconut sugar MSMEs in Indonesia, coconut sugar MSMEs can absorb plenty of labour so, hence it will enhance welfare and diminish poverty among society, particularly on related parties (craftman, retailer and distributor), technologies which is used to make coconut sugar also cheap and simple so easy to be developed in various regions.

Kameo, describes the characteristics of coconut sugar MSMEs in detail which is then quoted by Burger *et al.* (2001) as follows: This processing activity is usually thought of in Indonesia as a marginal activity that is carried out by poor households that lack access to better opportunities. The profit is indeed low, averaging less than a dollar a day. Yet, despite the rapid modernization of the Indonesian economy and agriculture, palm sugar processing has not lost ground. This is, in part because it is a part-time activity that fits into the interstices between other jobs. Moreover, the work burden is shared via gender division of labor men tap the sap from the coconut trees (sugar palm) before they go to their fields and women cook the sap while they do household chores. This part-time, traditional and low-input palm sugar processing is sufficient to produce low quality sugar for the local rural market. The sugar output is contracted informally and collected from the household-firms by hamlet collectors and sold in the village and nearby rural towns.

Micro small medium enterprises and financial problem: The issue of small business finance has been receiving increasing attention over the recent decade in the extant literature. There have been studies on various branches of small businesses: The two of these branches are namely financial management practices of small businesses and implications of financial management strategies on the survival and growth of small businesses (Venkateswarlu and Ravindra, 2002).

The issue of credit availability to small SMES has garnered world-wide concern recently. Small firms are also vulnerable because of their dependence on financial institutions for external funding. These firms simply do not have access to public capital markets. As a result, shocks to the banking system can have a significant impact on the supply of credit to small businesses (Berger and Udell, 2002).

Prior to research documented that MSMEs play a significant role in the economy of a country. Consequently, the performance of the MSMEs sector is closely associated with the performance of the nation (Chittithaworn *et al.*, 2011). One of the important roles of MSMEs in this context includes poverty alleviation through job creation (Chittithaworn *et al.*, 2011).

The government of Indonesia defines micro and small enterprises as firms with total assets up to Rp. 200 million (US \$ 22,500) excluding land and building or the total annual sales are not more than Rp. 1 billion (US \$ 112,700). While, the medium enterprises are firms with total assets more than Rp. 200 million but not exceed Rp. 10 billion (US \$ 1.127 million) excluding land and buildings.

In Indonesia, MSMEs have played a significant role in the economy of the fifth largest population in the world. Of >40 million enterprises, 99.99% is small and medium enterprises and only 0.01% is corporation. Millions of people engage in this productive activity and SMEs employ 99.45% of people working in the private sector. They contribute significantly to the development, as 54.74% of gross domestic product comes from these enterprises (Rudjito, 2011). According to Urata (2000), there are a number of MSMEs roles as follow:

- MSMEs is the main player in economic activities in varying sectors
- MSMEs is the biggest agent of vocations
- MSMEs is an important player in developing regional economic activities and social community development
- MSMEs is a creator of new market and innovations
- For MSMEs that have been acknowledged internationally, they have played important contributions in maintaining balance of payment through their exports

Small-scale industries in Indonesia provide >65% of total manufacturing employment (Burger *et al.*, 2001). Various characteristics are incorporated in MSMEs definitions across the globe. Criteria to define a small enterprise may include turnover, assets, employment numbers and management characteristics (Lee and McGuiggan, 2008).

Lack of access to finance has been cited as an important problem for MSMEs. If this difficult access to financing is not handled, the development of MSMEs, as one of the economy backbone will be hampered, since they cannot access sufficient long-term borrowing to allow them to modernize their operations while they also lack of alternative non-bank financing sources. This lack of access to financing problem is due to MSMEs high risk of inability to repay the loan, causing a fear of incurring bad debts for the banks (Koesrindartoto and Pratiwi, 2010). According to Rudjito (2011), bank distributes credit toward MSMEs potentially risky for several reasons are:

- Unavailability of accuracy, unreliable information on enterprises' financial condition and performance
- Unconvinced and weak business plan
- Weakness in MSME's management, market links, governance and information technology
- Weakness in banks staff including loan officers are not sufficiently trained in lending to MSMEs
- Banks' weakness in identifying the characteristics of MSMEs

- Weaknesses of the banks in adopting appropriate lending technologies and operation system that will enable them to realize this market potential and to lend profitably to small business
- The availability of other investing tools which give opportunity to the banks to have lower risk investment such as holding government paper
- Higher overhead cost due to a high number of customers with smaller loan size

In most countries, financing to small and Medium Size Enterprises (MSMEs) is important because MSMEs provide more than two-thirds of employment. Despite their importance, MSMEs have difficulty securing financing from banks. Beck report the perception that MSMEs lack adequate external financing, especially if they are in countries with poor institutions.

This study, analyzed the importance of nineteen economic problems facing owners/managers of MSMEs. Economic problems of great concern to owners/managers of MSMEs are as follows: Namely inability to obtain external financing; inability to obtain internal financing; insufficient capital, start-up costs (Venkateswarlu and Ravindra, 2002). Small and medium-sized enterprises of closed corporation type, their access to capital is limited (Bjuggren *et al.*, 2012).

This is in line with Mbonyane and Ladzani by stating that development SMEs is depend on external factor and internal organization. The result found that the caution of late development of SMEs is lack knowledge of low and limited financing.

Thevaruban (2009) examined small scale industries and its financial problems in Sri Lanka. He underscored that MSMEs of small scale industries in Sri Lanka find it, extremely difficult to get outside credit because the cash inflow and savings of the MSMEs in the small scale sector is significantly low. Hence, bank and non bank financial institutions do not emphasize much on credit lending for the development of the MSMEs in the small scale sector in Sri Lanka.

MATERIALS AND METHODS

Research was conducted in Banyumas, this is because 70% national coconut supply comes from Banyumas. Coconut sugar production in Banyumas regency in 2011 reached more than 51341.20 ton year⁻¹ with a number of craftman were 27862 people with a 298 groups collectively (BIP, 2011).

Interviewees in this research are the MSMEs entrepreneurs coconut sugar in Banyumas regency, Central Java, Department of Industry, Trade and

Cooperatives Banyumas, Regional Planning Board Banyumas, Bank Indonesia, Purwokerto, Central Java. Data was collected using questionnaires, in-depth interviews and a Focus Group Discussion (FGD) to formulate financing model was used qualitative analysis.

RESULTS AND DISCUSSION

Coconut sugar MSMEs generally do not have direct access to the banks. Craftsman get financial loan assistance from the collectors, both major collectors and minor collectors. Collectors do not ask neither interest or collateral on money lending to the craftsman but the craftsman obliged to deposit the coconut sugar to the collectors at a price which set by the collectors. Commonly, setting price which determined by collectors is lower than market price. It is because it was counted as compensation for the interest and risk of lending money to craftsman. Financial resources collectors, especially those used for the purposes loaned to the craftsman are generally derived from banking. This is because the collectors generally have better access to banking, mainly because the collectors have a guarantee.

Most of financial problems which confronted with many coconut sugar MSMEs entrepreneurs is meeting the demand of equipment/tools for coconut sugar operational process. Purchasing of equipment is not only for repairing the current equipments but also increasing volume production. At present, the current outcome is still less than the expectation, even it can not sufficient to fulfill daily needs.

Based on survey, almost 79% of coconut sugar MSMEs entrepreneurs have received, yet credit assistance for their business. There are various factors which limit their access to get credit from financial institutions are, such as higher interest risk, complex procedures, does not have a guarantee, do not understand the procedures to apply for credit.

Based on the problems, the financing model formulated with a simple procedure, low interest and easier collateral. Based on the results of the Focus Group Discussion (FGD) which involves the MSME entrepreneurs coconut sugar, it was succeed to formulate financing models for MSMEs in Banyumas namely coconut sugar bank. This model can be applied in Indonesia due as similar problem was face by coconut sugar MSMEs entrepreneur.

Based on Fig. 1, the financing model can be described as follows:

- MSMEs entrepreneur should sell coconut sugar to coconut sugar bank

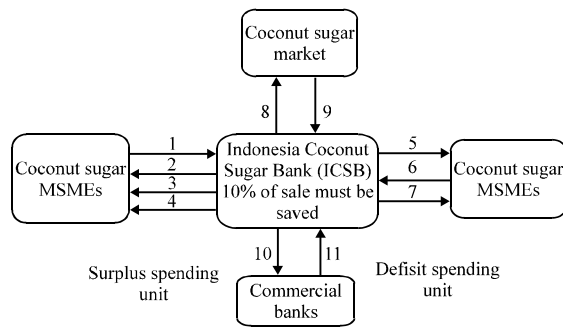


Fig. 1: Design of financing model for coconut sugar MSMEs

- Coconut sugar MSMEs entrepreneur obtains payment for its sales but 10% from its sales is given to coconut sugar bank as saving
- Coconut sugar will get interest saving as compensation for saving money at coconut sugar bank
- Coconut sugar bank not only will give interest saving but also provide assistance counseling, training, mentoring and insurance
- Coconut sugar bank will distribute capital lending for all of coconut sugar MSMEs
- Coconut sugar MSMEs entrepreneur pays interest upon the their credit
- Coconut sugar bank will provide counseling assistance, training, mentoring and insurance for who required
- Coconut sugar bank sell sugar from coconut sugar MSMEs entrepreneur to traditional market, modern market and international
- Coconut sugar bank gets revenue from sugar sales
- Collected fund in coconut sugar bank will deposit to commercial banks
- Coconut sugar bank get interest saving from commercial banks. This financing models will accomodate MSMEs entrepreneurs to obtain financing facilitation and escape dependency from broker

CONCLUSION

Based on the analysis, the problem is some of coconut sugar MSMEs entrepreneur was trapped in broker system so that its welfare is low.

RECOMMENDATIONS

Solution for solving financing problem in coconut sugar MSMEs entrepreneur is using financing model namely Indonesia Coconut Sugar Bank (ICSB).

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